


The Audit Process



TAPInternational





Value of Performing Audits



Value of Audits

FINANCIAL AUDITS

Provides transparency, truth, and facilitates trust in the numbers

COMPLIANCE AUDITS

Verifies that a public agency is adhering to requirements

PERFORMANCE AUDITS

Identifies how performance can be enhanced by assessing the efficiency, economy, and effectiveness of programs, services, business processes, departments, and agencies.



Auditor Responsibility



Auditor Responsibility

Determines that management and officials that manage government resources use their authority properly and in compliance with laws and regulations

Determines whether government programs are achieving their objectives and desired outcomes

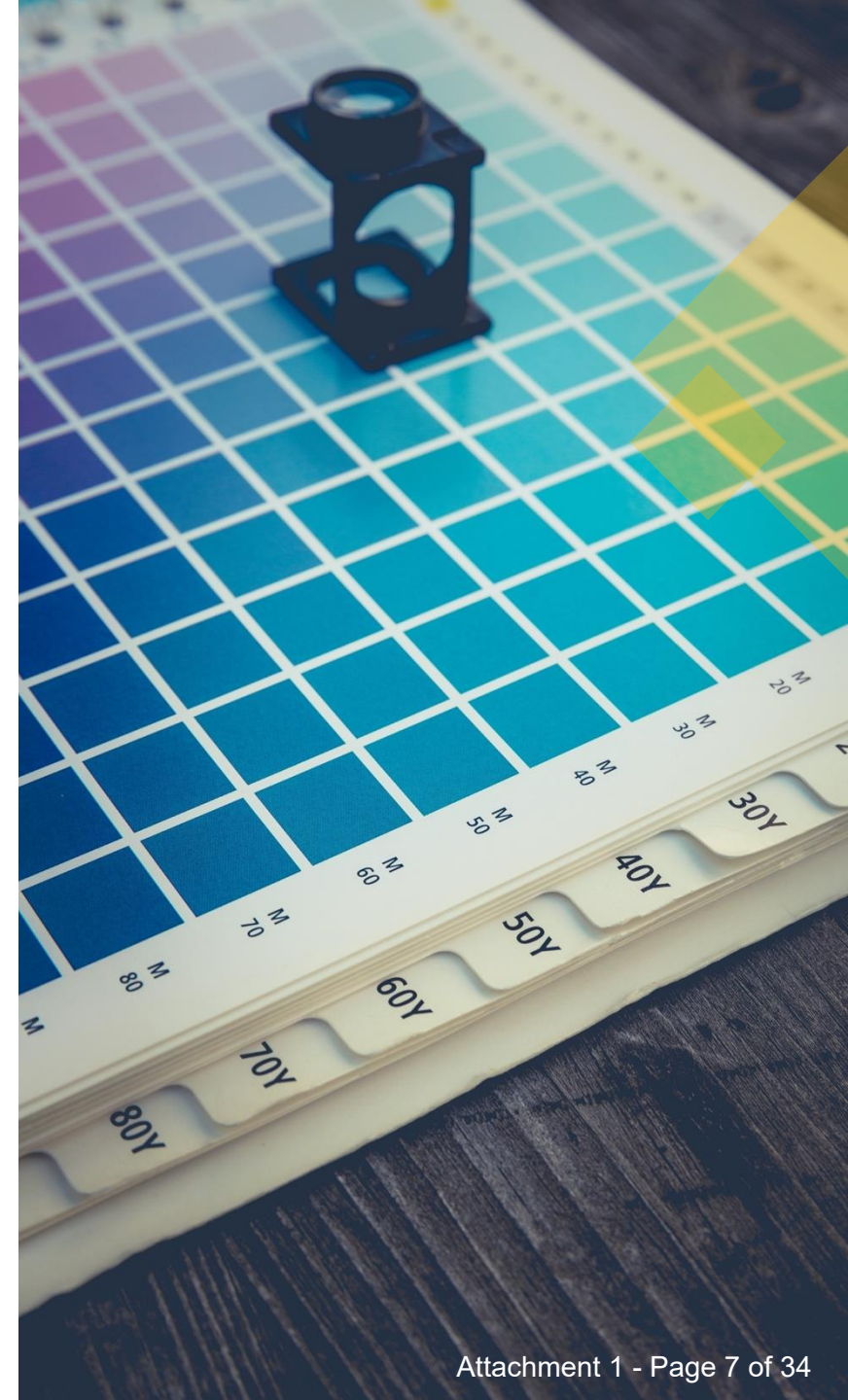
Determines whether government services are provided effectively, efficiently, economically, and ethically



Services Auditors Can Provide

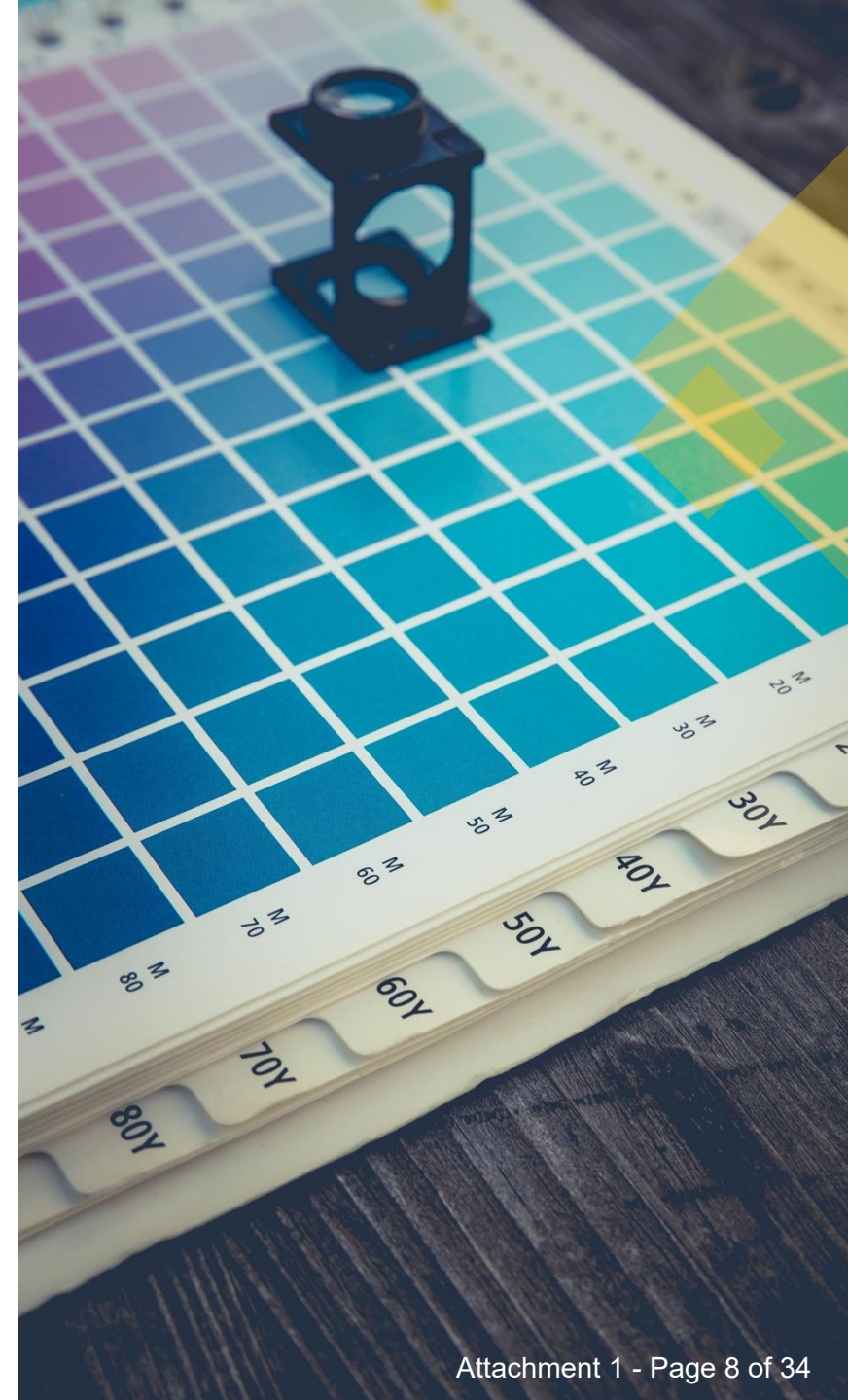
Services Auditors Can Provide

1. Providing advice to the audited entity on an accounting matter as an ancillary part of the overall financial audit; (CPAs only)
2. Providing advice to the audited entity on routine business matters; educating the audited entity about matters within the technical expertise of the auditors
3. Providing information to the audited entity that is readily available to the auditors, such as best practices and benchmarking studies. Providing information or data to a requesting party without auditor evaluation or verification of the information or data.



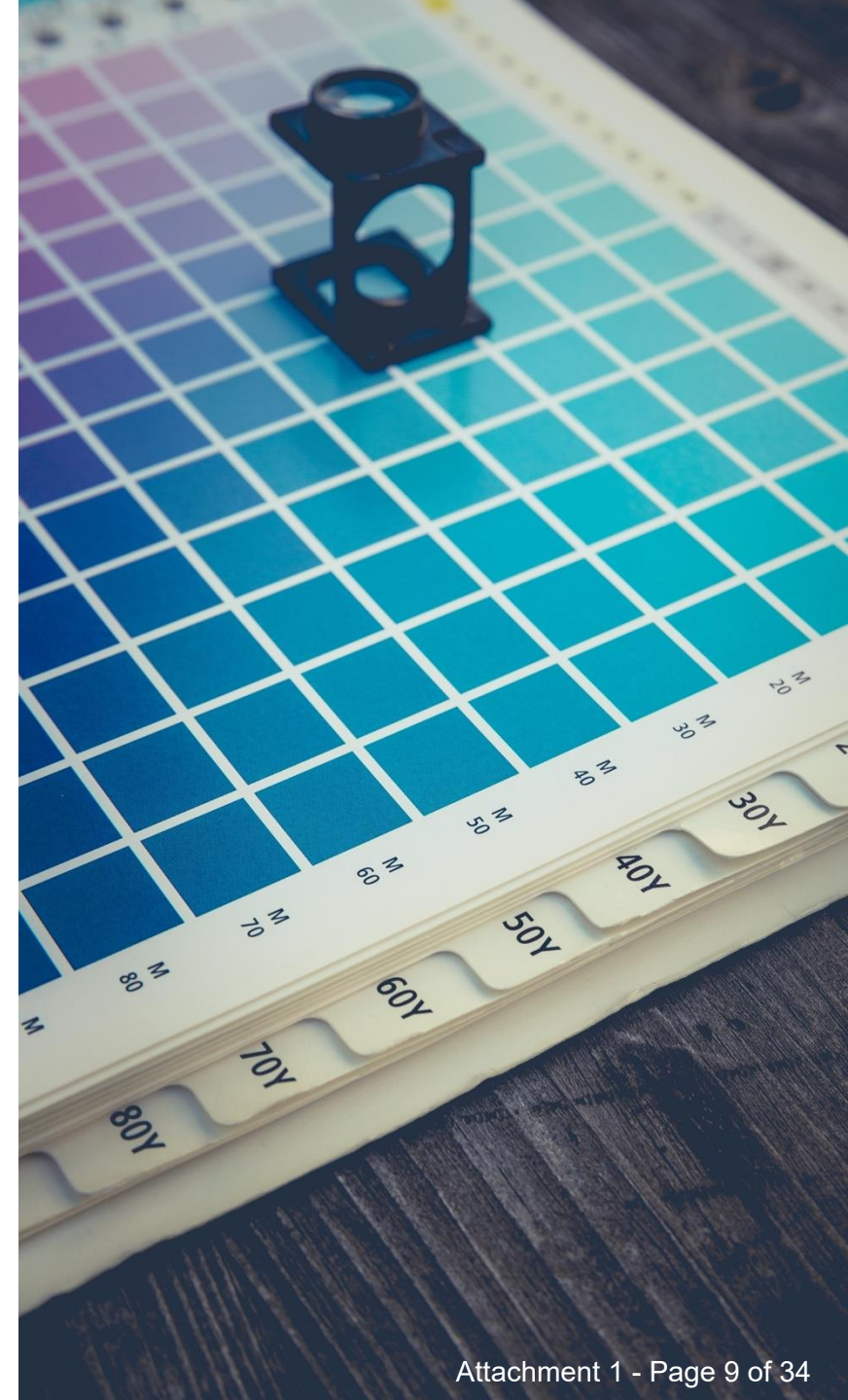
Services Auditors Can Provide

4. Developing standards, methodologies, audit guides, audit programs, or criteria for use throughout the agency or for use in certain specified situations
5. Collaborating with other professional organizations to advance auditing of government entities and programs
6. Developing question and answer documents to promote understanding of technical issues or standards



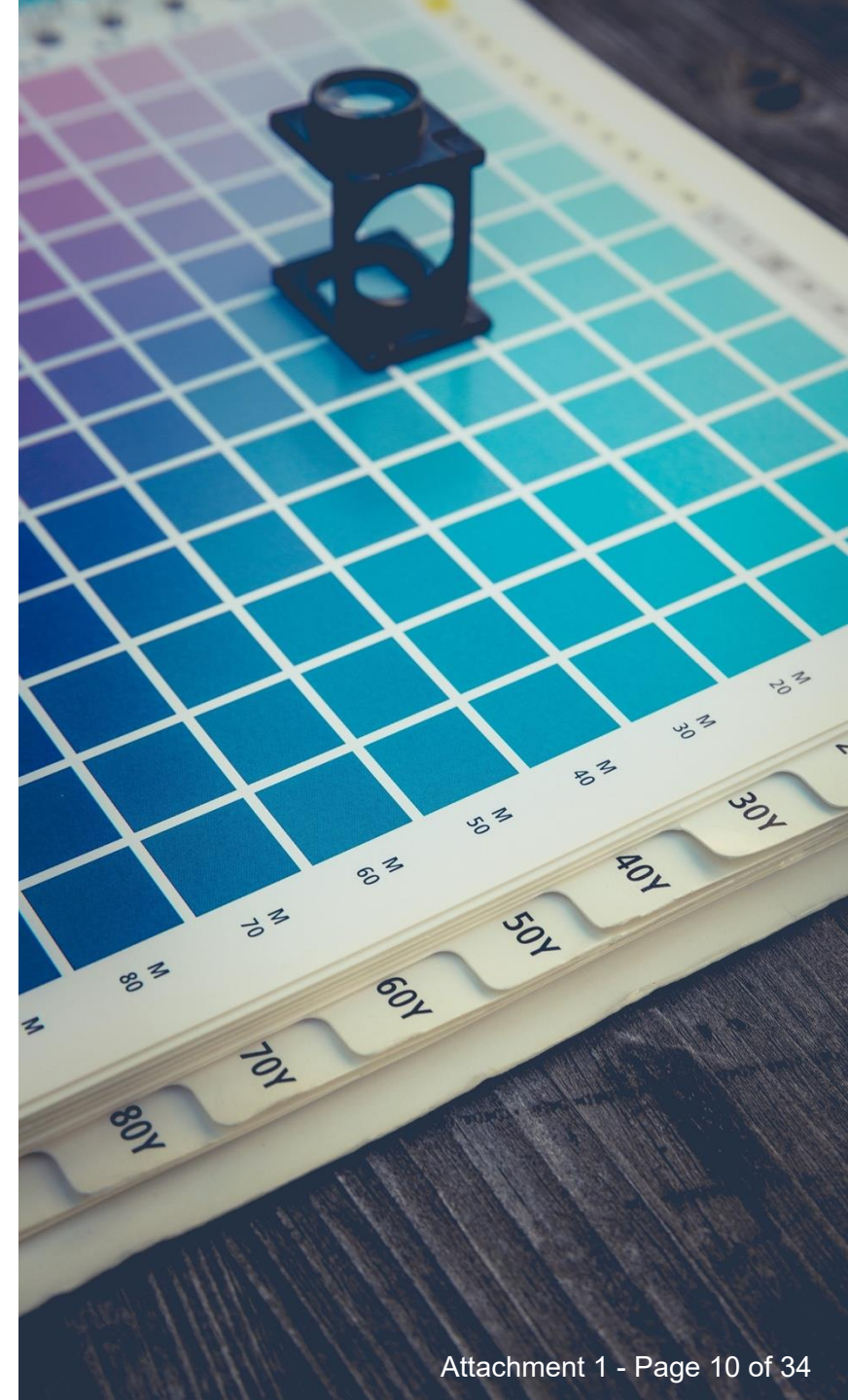
Services Auditors Can Provide

7. Providing assistance and technical expertise to legislative bodies or independent external organizations
8. Assisting elected officials by developing questions for use at meetings
9. Providing training and technical presentations



Services Auditors Can Provide

7. Providing assistance in reviewing budget submissions; i. contracting for audit services on behalf of an audited entity and overseeing the audit contract, as long as the overarching independence principles are not violated and the auditor under contract reports to the audit organization and not to management
8. Providing audit, investigative, and oversight-related services that do not involve applying generally accepted government auditing standards, such as:
 - investigations of alleged fraud, violation of contract provisions or grant agreements, or abuse
 - periodic audit recommendation follow-up engagements and reports; and identifying best practices or leading practices for use in advancing the practices of government organizations





Acronyms and Terminology

Acronyms and Terminology

- **Outcome** – a type of performance measurement that assesses the effect of providing services.
- **Output** – a type of performance measurement that shows the volume of a result produced by implementing a program or service.
- **GAGAS** – set of auditing standards contained in a 220 page “Yellow Book” that provide the foundation for government auditors to ensure audit independence, transparency, accountability, and quality.
- **Entrance conference** – first meeting with the auditee that discusses audit objectives, scope and methodology.
- **Efficiency** – to accomplish something with the least waste of time and effort.
- **Effectiveness** – the degree to which programs or service delivery are successful at producing a desired result.
- **Economical** – to accomplish something effectively and efficiency without high cost
- **Scoping** – an exploration of limited time and resources of potential issues and concerns. The results may or may not show further in-depth analysis and review is needed.

Acronyms and Terminology

- **Exit conference** – final meeting that takes place with the auditee to discuss audit findings. Can be referred to as a Results Meeting.
- **Technical review** – auditee’s third party review of information presented in a draft report.
- **Agency comment** – auditee’s formal response to audit recommendations.
- **Working paper** – document prepared by the auditor that describes or summarizes information, or work performed.
- **Stakeholder** – persons or entities that participate in the delivery of services; or are recipients of services provided by the auditee; or those that are impacted the results of the audit.
- **Internal Controls** – policies, procedures, processes, or activities that prevent fraud, waste, and abuse.
- **Risk assessment** – an evaluation of services, business processes, and operations that identifies areas that should be of concern to executive management and elected officials. The results are used to develop an annual audit work plan.



Types of Reviews

Financial Audits

Financial audits provide independent assessments of whether entities' reported financial information (e.g., financial condition, results, and use of resources) is presented fairly, in all material respects, in accordance with recognized criteria. Financial audits conducted in accordance with GAGAS include financial statement audits and other related financial audits.

Financial
Audits

Performance
Audits

Compliance
Audits

Agreed Upon
Procedures

Desk
Reviews

Internal Controls
Audit

Grant/Contract
Audit

Performance Audit

- **Performance audits provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight** with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.
- Performance audits are the most complex of all the types of audits and require the most: research, planning, time, data collection, and analysis, because every audit is different.

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Compliance Audit

Compliance Audits are an assessment of compliance with criteria established by provisions of laws, regulations, contracts, and grant agreements, or other requirements that could affect the acquisition, protection, use, and disposition of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance requirements can be either financial or nonfinancial.

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Agreed Upon Procedures

An auditor performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or a conclusion on it. The specified parties to the engagement agree upon and are responsible for the sufficiency of the procedures for their purposes. The specified parties are the intended users to whom use of the report is limited.

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Desk Reviews

- **A desk review is an important part of an overall audit — by collecting, organizing and synthesizing available information about an area or issue, risks and/or gaps identified may need further examination** that could be related to a larger concern.
- A Desk Review performed by a qualified auditor is sometimes called a preliminary review, scoping review, or ad-hoc audit. It is not a comprehensive financial, internal, or performance audit where all GAGAS standards must be met and the full audit process is implemented. A desk review allows an auditor to potentially identify whether risks and/or gaps exist that may warrant the need to transition into a full performance audit. The document that is prepared generally contains a brief summary of results of the work and a recommendation of whether to continue auditing.

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Internal Controls Audit

An assessment of one or more aspects of an entity's system of internal control that is designed to provide reasonable assurance of achieving effective and efficient operations, reliability of reporting for internal and external use, or compliance with provisions of applicable laws and regulations. Internal control objectives also may be relevant when determining the cause of unsatisfactory program performance. Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity.

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Grant / Contract Audit

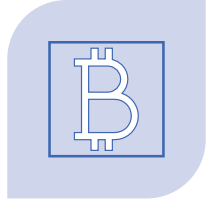
An assessment that examines the extent that contractual terms and conditions have been met.



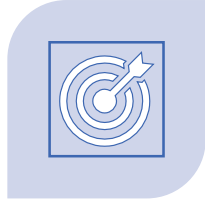
When to Conduct an Audit



Reasons to Audit



High risk of fraud, waste, and abuse



High risk of hindering progress towards goals and objectives



Change in executive management (prior to new hire)



Desire to accomplish cost savings



Need to identify revenue enhancement opportunities



Need to improve accountability

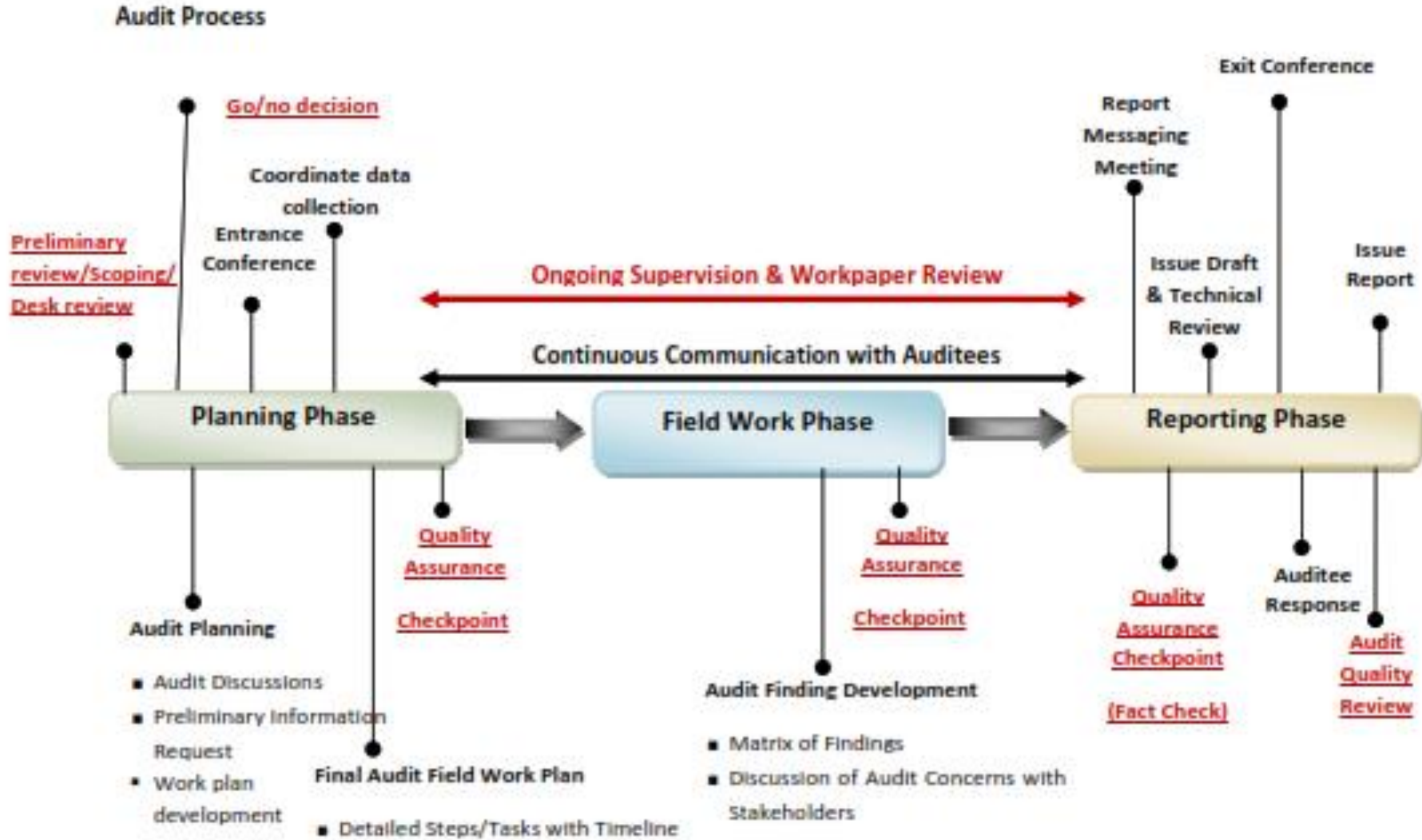


Need to improve performance



Performance Audit Process

Audits can range from 6 weeks to 12+ months to complete.



Key Components





Planning Phase – Key Activities

- **Opening Conference**
 - Discussion of audit objectives
 - Discussion of audit areas,
 - Discussion of approach, scope, and time required to complete the service or project,
 - Auditee roles and responsibilities
 - Communication activities that will take place on the audit a
 - Discussion of the preliminary data request, and
 - Overview of recent changes by auditee



Planning Phase – Key Activities

- **Project Plan Development**
 - Assessment of project risks
 - Detailed description of audit activities
 - Assignment of audit team roles and responsibilities
 - Development of data collection Instruments (DCIs)
- **GAGAS review of the project plan**



Planning Phase – Key Activities

- **Development of Background Information**
 - Identification of key stakeholders
 - Detailed description of audit activities
 - Assignment of audit team roles and responsibilities
 - Development of data collection Instruments (DCIs)
 - Identification and review of laws, codes, and regulations.



Implementation Phase: Data Collection Data Analysis

- The implementation phase is designed to develop information that answers the audit questions.
- **The information collected and analyzed must address the “elements of a finding”:**
 - Criteria – What should be?
 - Condition – What is actually happening?
 - Cause – Why is it happening?
 - Effect – What impact has the “condition” had on efficiency and effectiveness.



Implementation Phase: Data Collection Data Analysis

Required Activities Include:

- Assessment of risks applicable to the specific audit – areas that could impact the completion of the audit.
- Assess the reliability of information if the information to be used forms the basis of audit conclusions.
- Assess the adequacy of internal controls if the controls are applicable to the audit objectives/questions.
- Third party review of all working papers.



Implementation Phase: Data Collection Data Analysis

Common Audit Activities:

- Scheduling, preparing for and conducting Interviews
- Developing databases
- Development and computing performance measures
- Analyzing data and other documentation
- Identifying root causes of potential findings
- Preparing working papers in accordance with GAGAS standards.
- Verifying qualitative information



Implementation Phase: Data Collection Data Analysis

- Data collection methods can include over 26 quantitative and qualitative methodologies.
- Qualitative examples: Interviews, surveys, workshops, meeting attendance, physical observation.
- Quantitative examples: Documentation review, trend analysis, statistical analysis, performance measurement.



Reporting Phase: Draft Report Final Report

Key Activities:

- Results Meeting: Discussion of preliminary findings prior to draft the report, which allows one last opportunity for the auditee to provide information.
- Technical draft report: Preparation of preliminary draft report that is to be reviewed by the auditee
- GAGAS Review: Internal review performed by third party auditor to confirm adherence of the report to GAGAS
- Draft report: Final draft report presented to the Board Audit Committee
- Review of Agency Comments: Board Audit Committee and Auditor review of Management's response to the Audit Recommendations.
- **Final report.**